

**CITY OF EMMETSBURG, IOWA**  
**INDEPENDENT AUDITORS' REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2006**

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## CITY OF EMMETSBURG, IOWA

## CITY OFFICIALS

<u>Official Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Myrna Hedding	January 2, 2008
Mayor Pro Tem	Bill Zeigler	January 2, 2008
Council member	Patrick Degen	January 2, 2008
Council member	Linda Koppie	January 2, 2006
<i>Replaced Linda Koppie</i> Council member	Pam Smith	January 2, 2010
Council member	Kirk Haack	January 2, 2008
<i>Replaced Kirk Haack</i> Council member	Brian Campbell	January 2, 2010
Council member	Steve Finer	January 2, 2010
Council member <i>Resigned June 26, 2006</i>	Bob Kenny	January 2, 2008
Council member <i>Replaced Bob Kenny June 26, 2006</i>	Kirk Haack	January 2, 2008
City Clerk	Jill R. Kliegl	
City Attorney	Brian W. Thul	
City Administrator	John Bird	

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Emmetsburg, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Emmetsburg, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Capital assets policies of the component units (gas, water and sanitation) do not conform to generally accepted accounting principles as described in Note 1 to the financial statements. The amount by which this departure would affect the assets, fund balances, and expenses of the component unit's funds (gas water and sanitation) is not reasonably determinable.

In our opinion, except for the effects, if any, of not using capital assets policies that fully conform to generally accepted accounting principles for the component units (gas, water and sanitation), as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Emmetsburg, Iowa, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2007, on our consideration of City of Emmetsburg, Iowa's internal control over financial reporting and our tests with its compliance with certain laws, and regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Emmetsburg, Iowa's basic financial statements. The listing of City officials, combining and individual nonmajor and fund financial statements, schedules of revenues by source and expenditures by function-all governmental funds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Emmetsburg, Iowa. We previously audited, in accordance with the Standard referred in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed qualified opinions, for the effects on the financial statements, if any, of the omissions described in the third paragraph of this report, on those financial statements. The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the omissions described in the third paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The listing of City officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Burdorf, Parrott And Associates, P.C.*

January 17, 2007

## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Emmetsburg, Iowa's financial performance provides an overview of the City's financial activities for the year ended June 30, 2006. Please read this information in conjunction with the City's financial statements, which follow.

### **Financial Highlights**

- Revenues of the City's governmental activities increased \$816,010 or 35.8%, from fiscal year 2005 to fiscal year 2006. Property taxes, which include tax increment taxes, decreased \$88,225 for all activities.
- Program expenses of the City's governmental activities increased \$141,896 or 7.3% in fiscal year 2006 from fiscal year 2005. Public Safety, Public Works, and Culture and Recreation expenses increased \$38,016, \$102,949, \$8,248, respectively.
- The City's net assets for the primary government increased \$1,134,912, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental activities increased \$1,149,559 and the net assets of the business-type activities decreased by \$14,647.

### **Using This Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

### **Reporting the City as a Whole**

#### **The Statement of Net Assets and the Statement of Activities**

Our analysis of the City as a whole begins on page 18. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets-the difference between assets and liabilities-as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, interest on debt and debt related fees and capital outlay not included in capital assets. Property tax, franchise fees, fines, and state and federal grants finance most of these activities.
- Business-type activities include garbage pickup (solid waste) and the City's Cemetery. These activities are financed primarily by user charges.
- The Component Units, include the City's gas, water, and sanitation systems. The City is financially accountable for the Utilities although it is legally separate from the City. These activities are financed primarily by user charges.

### **Fund Financial Statements**

Our analysis of the City's major funds begin on page 21. The fund financial statements begin on page 20 and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes (like the Lake Project Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the state for housing rehabilitation for low and moderate income families). The City's two kinds of funds-governmental and proprietary-use different accounting approaches.

- Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliation at the bottom of the fund financial statements.
- Proprietary funds account for the City's Enterprise Funds. When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

## Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the change in the net assets for governmental and business-type activities. This does not include the component units of gas, water and sanitation.

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets:</b>						
Current and other assets	\$ 3,534,095	3,575,813	334,056	322,775	3,868,151	3,898,588
Capital assets	4,423,260	2,675,279	64,769	86,070	4,488,029	2,761,349
<b>Total assets</b>	<b>7,957,355</b>	<b>6,251,092</b>	<b>398,825</b>	<b>408,845</b>	<b>8,356,180</b>	<b>6,659,937</b>
<b>Liabilities:</b>						
Long-term debt	2,210,000	1,860,000	0	0	2,210,000	1,860,000
Other liabilities	2,018,513	1,811,809	19,021	14,394	2,037,534	1,826,203
<b>Total liabilities</b>	<b>4,228,513</b>	<b>3,671,809</b>	<b>19,021</b>	<b>14,394</b>	<b>4,247,534</b>	<b>3,686,203</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	1,893,280	864,279	64,769	86,070	1,958,029	950,349
Restricted	1,159,448	1,130,474	0	0	1,159,448	1,130,474
Unrestricted	676,134	584,530	315,035	308,381	991,169	892,911
<b>Total liabilities and net assets</b>	<b>\$ 7,957,355</b>	<b>6,251,092</b>	<b>398,825</b>	<b>408,845</b>	<b>8,356,180</b>	<b>6,659,937</b>

Net assets of governmental activities increased from June 30, 2005 by \$1,149,559 or 44.5%. Net assets of business-type activities decreased from June 30, 2005 by \$14,647 or 3.7%. The City's net assets are primarily invested in cash and capital assets, less related debt. By definition, restricted net assets represent resources that are subject to external restrictions, bond covenants, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, are \$991,169 at the end of the year.



For the year ended June 30, 2006 and 2005, net assets changed as follows:

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues						
Charges for services	\$ 38,425	55,368	301,910	300,229	340,335	355,597
Operating grants and contributions	338,495	352,948	0	0	338,495	352,948
Capital grants and contributions	963,581	54,350	0	0	963,581	54,350
General Revenues						
Property taxes	1,084,062	1,172,287	0	0	1,084,062	1,172,287
Special assessments	87,327	158,407	0	0	87,327	158,407
Other City taxes	60,258	23,268	0	0	60,258	23,268
Unrestricted grants and contributions	273,758	304,958	0	0	273,758	304,958
Unrestricted investment income	77,524	58,203	11,915	7,885	89,439	66,088
Miscellaneous	202,444	130,075	5,630	5,670	208,074	135,745
Total revenues	<u>3,125,874</u>	<u>2,309,864</u>	<u>319,455</u>	<u>313,784</u>	<u>3,445,329</u>	<u>2,623,648</u>
Expenses						
Public safety	479,385	441,369	0	0	479,385	441,369
Public works	663,230	560,281	0	0	663,230	560,281
Culture and recreation	262,848	254,600	0	0	262,848	254,600
Community and economic development	115,743	139,648	0	0	115,743	139,648
General government	271,499	249,245	0	0	271,499	249,245
Debt service	91,472	98,854	0	0	91,472	98,854
Capital outlay not included in assets	184,148	182,432	0	0	184,148	182,432
Solid waste	0	0	318,415	302,456	318,415	302,456
Cemetery	0	0	23,687	27,414	23,687	27,414
Total expenses	<u>2,068,325</u>	<u>1,926,429</u>	<u>342,102</u>	<u>329,870</u>	<u>2,410,427</u>	<u>2,256,299</u>
Increase (decrease) in net assets before transfers	1,057,549	383,435	(22,647)	(16,086)	1,034,902	367,349
Transfers in	<u>92,010</u>	<u>120,991</u>	<u>8,000</u>	<u>5,890</u>	<u>100,010</u>	<u>126,881</u>
Increase (decrease) in net assets	1,149,559	504,426	(14,647)	(10,196)	1,134,912	494,230
Net assets, beginning	<u>2,579,283</u>	<u>2,074,857</u>	<u>394,451</u>	<u>404,647</u>	<u>2,973,734</u>	<u>2,479,504</u>
Net assets, ending	\$ <u>3,728,842</u>	<u>2,579,283</u>	<u>379,804</u>	<u>394,451</u>	<u>4,108,646</u>	<u>2,973,734</u>

Property tax revenue decreased by \$88,225 from June 30, 2005, operating grants and contributions decreased by \$14,453 and capital grants and contributions increased by \$909,231.

### **Governmental Activities**

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or it is self-financing through user fees and grants. Some of the individual line item revenues reported for each function are:

Public safety	Police fees, Animal control charges
Public works	Airport charges, Road use tax funds from the state, state and federal grants for the lake restoration and capital projects.
Culture and recreation	Library charges, Park and recreation fees, County library operating grants.
Community and economic development	Cemetery charges, CDBG for housing rehabilitation.

All other governmental revenues are reported as general revenues. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

### **Business-Type Activities**

The Solid Waste Fund had an operating loss before transfers of \$21,127 for the current year ended. Last year the Solid Waste Fund showed a loss before transfers of \$13,192. The primary reason for the increase in losses for the year ended June 30, 2006 is that operating expenses other than depreciation increased 5.7% over to last year.

**Component Units****Summary of Operations and Changes in Net Assets****Net Assets**

	<u>2006</u>	<u>2005</u>
Assets:		
Current and other assets	\$ 4,525,946	3,500,143
Capital assets	<u>10,539,432</u>	<u>7,386,203</u>
Total assets	<u>15,065,378</u>	<u>10,886,346</u>
Liabilities:		
Current liabilities	519,577	290,654
Non-current liabilities	<u>3,491,666</u>	<u>779,124</u>
Total liabilities	<u>4,011,243</u>	<u>1,069,778</u>
Net assets:		
Invested in capital assets (net of debt)	6,943,701	6,597,956
Unreserved	<u>4,110,434</u>	<u>3,218,612</u>
Total liabilities and net assets	<u>\$ 15,065,378</u>	<u>10,886,346</u>

**Revenues**

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Residential	\$ 1,806,399	1,466,786
Commercial	1,378,400	1,162,802
Public authority	298,801	233,093
Customer fees	440,554	455,980
Interfund services provided	53,391	37,176
Penalties	5,412	2,932
Other	<u>46,169</u>	<u>19,499</u>
Total operating	<u>4,029,126</u>	<u>3,378,268</u>
Non-operating revenues:		
Interest income	62,633	50,062
Grant proceeds	<u>840,548</u>	<u>121,769</u>
Total non-operating revenues	<u>903,181</u>	<u>171,831</u>
Total revenues	<u>\$ 4,932,307</u>	<u>3,550,099</u>

For the funds maintained by the Utilities', total revenues for June 30, 2006 increased by \$1,382,208 from total revenues for the year ended June 30, 2005. The increase in revenue was primarily due to increase in natural gas billings. The average cost paid for natural gas by the Utilities' for the year ended June 30, 2006 was \$9.80 per MCF compared to \$7.18 per MCF for the year ended June 30, 2005. The additional cost was passed on to the customer. In addition to the increased billings of natural gas, the Utilities received grant proceeds of \$718,779 more than they received for the year ended June 30, 2005.

<b>Expenses</b>			
		<u>2006</u>	<u>2005</u>
Operating expenses:			
Personal services	\$	368,573	364,724
Contractual		223,818	215,109
Materials, supplies and maintenance		2,480,331	2,081,984
Utilities		58,247	55,304
Depreciation		284,464	276,729
Uncollected accounts		5,112	7,060
Interfund services used		63,542	55,077
Other		32,564	46,940
Total operating expenses		<u>3,516,651</u>	<u>3,102,927</u>
Non-operating expenses:			
Interest expense		82,421	22,013
Net loss on disposal of capital assets		0	12,659
Total non-operating expenses		<u>82,421</u>	<u>34,672</u>
Total expense	\$	<u><u>3,599,072</u></u>	<u><u>3,137,599</u></u>

The total expenses increased by \$461,473 from the prior year. This increase resulted primarily from higher cost of natural gas purchased as discussed above in revenues. The total increase in cost of natural gas purchased over the prior year was \$399,380.

### **Individual Major Fund Analysis**

#### **Governmental Fund Highlights**

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,807,290. \$95,549 is reserved for debt service leaving an unreserved balance of \$1,711,740. Of the unreserved balance, the City has designated \$364,435 leaving an unreserved and undesignated fund balance of \$1,347,305.

The governmental fund balance decreased by \$214,040, which is an 10.6% decrease. This decrease is partially attributable to the purchase of a police car and a street sweeper with \$188,488 set aside from the sale of bonds from last year.

The General Fund is the chief operating fund of the City of Emmetsburg, Iowa. At the end of the current year, unreserved and undesignated fund balance of the General Fund was \$278,421.

The unreserved and designated fund balance of the General Fund was \$219,382 for a total unreserved balance of \$497,803. The City Council can remove the designation at any time. However, it is unlikely that the Council will take such action since \$200,000 is set-aside to be used during various months each year that there is little cash received by the City. The City does not want to borrow money during those months.

The following fund balances in the other major and other nonmajor governmental funds, which comprise the total governmental funds are listed below:

	June 30, 2006	June 30, 2005	Increase (Decrease)
Road Use Tax Fund	\$ 261,612	266,168	(4,556)
Employee Benefit Fund	***	68,202	***
Local Option Sales Tax Fund	***	97,097	***
ECDC Trust Fund	***	83,950	***
Debt Service Fund	29,542	62,102	(32,560)
Special Assessment Fund	66,007	28,889	37,118
Lake Project Fund	***	285,406	***
First Street Project Fund	***	33,066	***
Highway 18/Urban	123,965	0	123,965
Airport Runway	0	0	0
Other Non Major Governmental Funds	828,360	347,045	481,315

\*\*\* No longer a major fund, it is included in other funds in 2006

The largest increase in fund balance for the major funds occurred in the Highway 18/Urban Capital Projects Fund. This was due to a bond issue that was not entirely spent during the year ended June 30, 2006. The rest will be used on the improvement project during the year ended June 30, 2007.

Debt Service Fund has the largest decrease. This is due to debt payments in excess of property tax asking.

The \$481,315 increase in the Other Nonmajor Governmental Funds was primarily caused by the transfer of the Employee Benefit Fund, Local Option Sales Tax Fund, ECDC Trust Fund, Lake Project Fund, and First Street Project Fund to nonmajor during the year ended June 30, 2006.

The following schedule presents a summary of the governmental fund revenues for the years ended June 30, 2006 and June 30, 2005.

Revenues	FY 06 Amount	Percent of Total	FY 05 Amount	Increased (Decrease)
Property taxes	\$ 1,029,329	32.87%	1,037,229	(7,900)
Tax increment financing	54,733	1.75%	135,058	(80,325)
Other city tax	60,258	1.92%	23,268	36,990
Licenses and permits	19,745	0.63%	9,846	9,899
Use of money and property	77,524	2.48%	56,203	21,321
Intergovernmental	1,575,834	50.33%	712,256	863,578
Charges for services	38,425	1.23%	55,368	(16,943)
Special assessments	87,327	2.79%	158,407	(71,080)
Miscellaneous	187,899	6.00%	120,229	67,670
	<u>\$ 3,131,074</u>	<u>100.00%</u>	<u>2,307,864</u>	<u>823,210</u>

The most significant increase in revenue was in intergovernmental revenues. The increase was primarily due to increased federal and state grants municipal airport runway improvements and Highway 18/Urban project.

The most significant decrease in revenues was in tax increment financing. This decrease was due to decreases in the North and South TIF districts.

The following schedule presents a summary of governmental expenditures for the years ended June 30, 2006.

Expenditures	FY 06 Amount	Percent of Total	FY 05 Amount	Increased (Decrease)
Public Safety	\$ 443,517	10.83%	406,277	37,240
Public Works	552,371	13.49%	484,170	68,201
Culture and Recreation	237,741	5.81%	224,900	12,841
Community and Economic Development	115,744	2.83%	139,649	(23,905)
General Government	270,822	6.62%	349,245	(78,423)
Debt Service	417,892	10.21%	375,832	42,060
Capital Outlay	2,055,638	50.21%	1,261,356	794,282
	<u>\$ 4,093,725</u>	<u>100.00%</u>	<u>3,241,429</u>	<u>852,296</u>

Most of the significant increase in expenditures occurred in the capital outlay function. This is due to several new projects during the year ended June 30, 2006.

The most significant decrease in expenditures occurred in the Community and Economic Development function. This was due to less money spent from the Local Option Sales Tax Fund this year as compared to the year ended June 30, 2005.

### Proprietary Funds

City of Emmetsburg proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted Solid Waste and Cemetery funds at the end of the year totaled \$379,804.

These funds were established for the City operations that are financed and operated in a manner similar to private business enterprises. The cost of providing the services to the public is recovered, in whole or in part, through user charges.

The City's enterprise operations are comprised of two separate and distinct activities: Solid Waste and Cemetery. Results of operations for these funds for the years ended June 30, 2006 and 2005 is as follows:

	Solid Waste		Cemetery	
	2006	2005	2006	2005
Operating Revenues	\$ 288,210	283,104	16,330	22,795
Operating Expense	318,415	302,456	23,687	27,414
Non-Operating revenues	9,078	6,160	5,837	1,725
Operating transfers in	0	0	8,000	5,890
Changes in Net Assets	(21,127)	(13,192)	6,480	2,996

### Budgetary Highlights

Over the course of the year, the City Council revised the budget one time. This budget amendment was an increase to appropriations to cover unplanned expenditures/ expenses, and transfers. The budget was amended on May 8, 2006 The City did exceed the debt service budget by \$53,766.

### Capital Asset and Debt Administration

#### Capital Assets

At the end of June 30, 2006, the City had \$4,488,029 invested in capital assets including police and fire equipment, buildings, park facilities, and infrastructure. This does not include the Component units that had \$10,539,432 invested in capital assets. Infrastructure prior to July 1, 2003 is not included in the financial statements unless they were considered as construction in progress on July 1, 2003.

A schedule for the year ended June 30, 2006 and 2005 is as follows.

**Governmental Activities:**

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
<b>Asset costs</b>				
Land and land improvements	\$ 0	2,525	0	2,525
Machinery and equipment, vehicles	1,594,013	255,159	(19,950)	1,829,222
Buildings	642,072	9,842	0	651,914
Infrastructure	1,906,938	833,925	0	2,740,863
Construction in progress	54,948	770,039	0	824,987
Total assets costs	<u>4,197,971</u>	<u>1,871,490</u>	<u>(19,950)</u>	<u>6,049,511</u>
<b>Less accumulated depreciation</b>				
Machinery and equipment	1,131,195	102,307	(19,950)	1,213,552
Buildings	296,699	15,347	0	312,047
Infrastructure	45,798	54,857	0	100,655
Total accumulated depreciation	<u>1,473,692</u>	<u>172,511</u>	<u>(19,950)</u>	<u>1,626,254</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 2,724,279</u>	<u>1,698,979</u>	<u>0</u>	<u>4,423,257</u>

<b>Business-type activities:</b>	\$			
Land and improvements	19,791		0	19,791
Machinery and equipment, vehicles	193,622	791	0	194,413
Building	23,891	0	0	23,891
Total assets cost	<u>237,304</u>	<u>791</u>	<u>0</u>	<u>238,095</u>
<b>Less accumulated depreciation</b>				
Land and improvements	754	696	0	1,450
Machinery and equipment, vehicles	142,597	20,728	0	163,325
Building	7,884	667	0	8,551
Total accumulated depreciation	<u>151,235</u>	<u>22,091</u>	<u>0</u>	<u>173,326</u>
<b>Business-type assets, net</b>	<u>\$ 86,069</u>	<u>(21,300)</u>	<u>0</u>	<u>64,769</u>



Capital assets activities for the year ended June 30, 2005 is as follows:

**Governmental Activities:**

	Balance			Balance
	July 1, 2004	Additions	Disposals	June 30, 2005
<b>Asset costs</b>				
Machinery and equipment, vehicles	\$ 1,512,236	81,777	0	1,594,013
Buildings	642,072	0	0	642,072
Infrastructure	876,657	1,030,281	0	1,906,938
Construction in progress	88,081	54,948	(88,081)	54,948
Total assets costs	3,119,046	1,167,006	(88,081)	4,197,971
<b>Less accumulated depreciation</b>				
Machinery and equipment	1,035,251	95,944	0	1,131,195
Buildings	284,389	12,310	0	296,699
Infrastructure	13,150	32,648	0	45,798
Total accumulated depreciation	1,332,790	140,902	0	1,473,692
<b>Governmental activities capital assets, net \$</b>	<u>1,786,256</u>	<u>1,026,104</u>	<u>(88,081)</u>	<u>2,724,279</u>

<b>Business-type activities:</b>	\$			
Land and improvements	12,827	6,964	0	19,791
Machinery and equipment, vehicles	193,622	0	0	193,622
Building	23,891	0	0	23,891
Total assets cost	230,340	6,964	0	237,304
<b>Less accumulated depreciation</b>				
Land and improvements	232	522	0	754
Machinery and equipment, vehicles	121,444	21,152	0	142,596
Building	7,217	667	0	7,884
Total accumulated depreciation	128,893	22,341	0	151,234
<b>Business-type assets, net</b>	<u>\$ 101,447</u>	<u>(15,377)</u>	<u>0</u>	<u>86,070</u>

## Debt

At year-end, the City primary government had \$2,530,000 in outstanding bonds compared to \$2,188,000 last year. That is an increase of 15.6 percent. The only new debt issued this year was \$670,000 general obligation street bonds for the Highway 18/Urban improvements.

The Component Unit had \$3,595,731 of loans outstanding at year-end, compared to \$788,247 last year. This is an increase of 356 percent. The Component Unit's new debt issued this year was \$2,635,731 of Iowa State Revolving Loan Program Water Revenue Bond Series 2005, and \$216,753 of Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005.

### City of Emmetsburg Outstanding Debt General Obligation Bonds and Notes

	Governmental activities	
	2006	2005
General obligation bonds	\$ 2,530,000	2,140,000
Notes payable	0	48,000
	<u>\$ 2,530,000</u>	<u>2,188,000</u>

### Component Unit Outstanding Debt Revenue Bonds

	2006	2005
Revenue bonds	<u>\$ 3,595,731</u>	<u>788,247</u>

## Economic Factors and Next Year's Budget and Rates

During the state legislative session in 2003, the legislature permanently eliminated certain state funding to local governments starting in the year ended June 30, 2004 and will continue in the future. This along with the continuation of the state rollback on residential properties greatly affects the City's general operating fund.

The tax levy rates per \$1,000 of taxable valuation for fiscal year 2007 are provided below:

General levy	\$ 8.10000
Liability, property & self insurance	1.00413
Instrumental/vocal music levy	0.13500
Ag land levy	3.00375
Emergency levy	.27000
Employee benefit levy	4.76338
Debt service levy	<u>3.16375</u>
Total	\$ <u>20.44001</u>

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa. You can also contact the City Administrator's Office for a separately issued report on the component units. That report is for the gas, water and sanitation departments known as "Emmetsburg Municipal Utilities".

*John Bird*

City Administrator

City of Emmetsburg, Iowa  
Statement of Net Assets  
June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<b>ASSETS</b>			
Pooled cash and cash equivalents	\$ 1,985,019	309,425	2,294,444
Non-pooled cash	8,619	0	8,619
Investments and certificates of deposit	2,351	0	2,351
Special assessments receivable	134,192	0	134,192
Property taxes receivable	1,098,006	0	1,098,006
Accounts receivable	3,009	14,230	17,239
Other receivables	0	0	0
Interest receivable	0	0	0
Receivable from component units	50,199	0	50,199
Intergovernmental receivables	207,218	0	207,218
Notes receivable, current	49	0	49
Accrued billings	0	0	0
Inventories	8,620	10,401	19,021
Prepaid expense	0	0	0
Restricted assets:			
Pooled cash and cash equivalents	0	0	0
Assets whose use is limited:			
Pooled cash and cash equivalents	0	0	0
Certificates of deposit	0	0	0
Notes receivable, non-current	0	0	0
Unamortized note discount and loan fees	36,813	0	36,813
Capital assets:			
Land and construction in progress	827,512	19,791	847,303
Other capital assets, net of accumulated depreciation	3,595,748	44,978	3,640,726
Total assets	<u>7,957,355</u>	<u>398,825</u>	<u>8,356,180</u>
<b>LIABILITIES</b>			
Accounts payable	454,979	13,786	468,765
Payable to primary government	0	0	0
Interest payable	8,520	0	8,520
Compensated absences, current	34,651	3,767	38,418
Current portion of long-term debt	320,000	0	320,000
Other liabilities	245	1,468	1,713
Deferred revenue	1,200,118	0	1,200,118
Liabilities payable from restricted assets			
Customer deposits	0	0	0
Long-term debt (net of current portion)	0	0	0
Bonds payable, non-current	2,210,000	0	2,210,000
Total liabilities	<u>4,228,513</u>	<u>19,021</u>	<u>4,247,534</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,893,260	64,769	1,958,029
Restricted for: Capital projects	467,982	0	467,982
Debt service	95,549	0	95,549
Road use tax	261,612	0	261,612
Local option sales tax	102,868	0	102,868
Employee Benefits	39,127	0	39,127
Tax increment districts	127,705	0	127,705
Perpetual care of cemetery	64,605	0	64,605
Unrestricted	676,134	315,035	991,169
Total net assets	<u>\$ 3,728,842</u>	<u>379,804</u>	<u>4,108,646</u>

See notes to financial statements.

Component Units		
Gas Department	Water Department	Sanitation Department
1,130,678	382,799	313,049
0	0	0
0	0	87,778
0	0	0
0	0	0
213,656	0	35,004
138	0	40,000
818	1,177	267
0	0	0
0	0	0
2,498	0	0
51,174	30,337	23,563
0	0	0
5,710	12,517	11,233
42,865	10,070	0
393,607	320,249	126,178
599,750	460,000	12,222
43,607	0	0
0	27,500	5,700
1,039	3,272,438	1,092,026
847,308	1,783,209	3,543,412
3,332,848	6,300,296	5,290,432
43,894	42,253	42,501
33,816	8,191	8,191
0	6,495	2,758
4,419	4,487	2,216
0	102,000	55,000
21,554	0	0
0	0	0
42,865	10,070	0
0	2,533,731	905,000
0	0	0
146,548	2,707,227	1,015,666
848,347	2,419,916	3,675,438
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
2,337,953	1,173,153	599,328
3,186,300	3,593,069	4,274,766

City of Emmetsburg, Iowa  
Statement of Activities  
Year Ended June 30, 2006

Functions/Programs	Expense	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Public safety	\$ 479,385	5,583	0	0	(473,802)
Public works	663,230	0	326,915	863,581	527,266
Culture and recreation	262,848	32,842	3,850	0	(226,156)
Community and economic development	115,743	0	7,730	0	(108,013)
General government	271,499	0	0	0	(271,499)
Interest on debt and debt related fees	91,472	0	0	0	(91,472)
Capital outlay not included in capital assets	184,148	0	0	100,000	(84,148)
Total governmental activities	<u>2,068,325</u>	<u>38,425</u>	<u>338,495</u>	<u>963,581</u>	<u>(727,824)</u>
Business-type activities:					
Solid waste	318,415	288,210	0	0	(30,205)
Cemetery	23,687	13,700	0	0	(9,987)
Total business-type activities	<u>342,102</u>	<u>301,910</u>	<u>0</u>	<u>0</u>	<u>(40,192)</u>
Total primary government	<u>\$ 2,410,427</u>	<u>340,335</u>	<u>338,495</u>	<u>963,581</u>	<u>(768,016)</u>
Component units:					
Emmetsburg Municipal Utilities:					
Gas department	\$ 2,678,846	3,025,388	0	0	346,542
Water department	409,178	515,647	0	549,619	666,088
Sanitation department	511,048	488,081	0	290,929	267,962
Total component units	<u>\$ 3,599,072</u>	<u>4,029,116</u>	<u>0</u>	<u>840,548</u>	<u>1,270,592</u>

Note to statement of activities:

The City is dredging Five Island Lake that belongs to the State of Iowa. The City budgets the expenditure as a capital outlay; however, the City does not include the cost of the dredging in its capital assets because it does not own the lake and most of the lake is outside the City limits. Therefore, capital outlay is shown as an expenditure on this statement.

The City owns the assets used for the dredging project and those assets are recorded in capital assets on the Statement of Net Assets.

See notes to financial statements.

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	Gas Department	Water Department	Sanitation Department
Change in net assets:						
Net (expense) revenues	\$ (727,824)	(40,192)	(768,016)	346,542	656,088	267,962
General revenues:						
Property tax levied for:						
General purpose	822,250	0	822,250	0	0	0
Tax increment financing	54,733	0	54,733	0	0	0
Debt service	207,079	0	207,079	0	0	0
Special assessments	87,327	0	87,327	0	0	0
Other city tax	60,258	0	60,258	0	0	0
Unrestricted grants and contributions	273,758	0	273,758	0	0	0
Unrestricted Investment Income	77,524	11,915	89,439	34,261	21,130	7,242
Miscellaneous	202,444	5,630	208,074	0	0	0
Transfers-Internal activity	92,010	8,000	100,010	(116,658)	(7,000)	28,000
Total general revenues and transfers	1,877,383	25,545	1,902,928	(82,397)	14,130	35,242
Change in net assets	1,149,559	(14,647)	1,134,912	264,145	670,218	303,204
Net assets-beginning	2,579,283	394,451	2,973,734	2,922,155	2,922,851	3,971,562
Net assets-ending	\$ 3,728,842	379,804	4,108,646	3,186,300	3,593,069	4,274,766

City of Emmetsburg, Iowa  
Balance Sheet-Governmental Funds  
June 30, 2006

	General Fund	Special Revenue Road Use Tax Fund
<b>ASSETS</b>		
Pooled cash and cash equivalents	\$ 484,496	283,057
Non-pooled cash	8,619	0
Investments	0	0
Receivables:		
Special assessments	0	0
Property taxes, net	22,928	0
Accounts	171	0
Notes, current	0	0
Interfund receivable	0	0
Receivable from component units	47,199	0
Intergovernmental receivables	0	25,455
Inventory	8,620	0
Total assets	\$ 572,033	308,512
<b>LIABILITIES</b>		
Accounts payable	\$ 25,433	37,433
Interfund payable	23,368	0
Loan payable to component units	0	0
Interest payable to component units	0	0
Compensated absences, current	25,184	9,467
Other liabilities	245	0
Deferred revenues	0	0
Total liabilities	74,230	46,900
<b>FUND BALANCE</b>		
Reserved for debt service		
Unreserved, reported in General fund	278,421	0
Unreserved-designated, General funds	219,382	0
Unreserved, reported in Special revenue funds	0	261,612
Unreserved-designated, reported in Special revenue funds	0	0
Unreserved, reported in Capital projects funds	0	0
Unreserved-designated, reported in Capital projects funds	0	0
Total fund balances	497,803	261,612
Total liabilities and fund balances	\$ 572,033	308,512

See notes to financial statements.



Debt Service		Capital Projects		Other	Total
Debt Service Fund	Special Assessments Fund	Highway 18/Urban	Airport Runway	Governmental Funds	Governmental Funds
1,925	63,471	332,848	3,300	815,922	1,985,019
0	0	0	0	0	8,619
0	0	0	0	2,351	2,351
0	134,192	0	0	0	134,192
4,250	0	0	0	4,953	32,131
0	0	0	0	2,838	3,009
0	0	0	0	49	49
23,368	0	0	0	0	23,368
0	0	0	0	3,000	50,199
0	2,536	157,167	0	22,060	207,218
0	0	0	0	0	8,620
<u>29,543</u>	<u>200,199</u>	<u>490,015</u>	<u>3,300</u>	<u>851,173</u>	<u>2,454,775</u>
0	0	366,050	3,300	22,763	454,979
0	0	0	0	0	23,368
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	34,651
0	0	0	0	0	245
0	134,192	0	0	50	134,242
<u>0</u>	<u>134,192</u>	<u>366,050</u>	<u>3,300</u>	<u>22,813</u>	<u>647,485</u>
29,542	66,007	0	0	0	95,549
0	0	0	0	0	278,421
0	0	0	0	0	219,382
0	0	0	0	377,741	639,353
0	0	0	0	106,602	106,602
0	0	123,965	0	275,566	399,531
0	0	0	0	68,451	68,451
<u>29,542</u>	<u>66,007</u>	<u>123,965</u>	<u>0</u>	<u>828,360</u>	<u>1,807,289</u>
<u>29,542</u>	<u>200,199</u>	<u>490,015</u>	<u>3,300</u>	<u>851,173</u>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,626,253 4,423,260  
 Unamortized discount on bonds 36,813

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Net change in accrued interest on bonds (8,520)  
 Bonds payable (2,530,000)

\$ 3,797,293

City of Emmetsburg, Iowa  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances-  
Governmental Funds  
Year Ended June 30, 2006  
(Page 1 of 2)

	General	Special Revenue Road Use Tax Fund	Debt Service Debt Service Fund
REVENUES	\$		
Property taxes	582,248	0	207,079
Tax increment financing	0	0	0
Other city tax	48,310	0	7,503
Licenses and permits	19,745	0	0
Use of money and property	51,442	0	3,916
Intergovernmental	44,962	326,915	0
Charges for services	38,425	0	0
Special assessments	0	0	0
Miscellaneous	72,990	0	48,000
Total revenues	858,122	326,915	266,498
EXPENDITURES			
Governmental activities:			
Public safety	438,096	0	0
Public works	155,975	379,806	0
Culture and recreation	224,721	0	0
Community and economic development	55,871	0	0
General government	270,822	0	0
Debt service	0	0	415,492
Capital outlay	228,148	12,256	0
Total expenditures	1,373,633	392,062	415,492
Excess (deficiency) of revenues over expenditures	(515,511)	(65,147)	(148,994)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	0	0	0
Discount on bonds	0	0	0
Transfers from other funds	377,397	60,591	116,434
Transfers to other funds	(113,488)	0	0
Total other financing sources (uses)	263,909	60,591	116,434
Net changes in fund balances	(251,602)	(4,556)	(32,560)
Fund balance, beginning	749,406	266,168	62,102
Fund balance, ending	\$ 497,804	261,612	29,542

See notes to financial statements.

Debt Service Special Assess- ments Fund	Capital Projects		Other Governmental Funds	Total Governmental Funds
	Highway 18/Urban	Airport Runway		
0	0	0	240,002	1,029,329
0	0	0	54,733	54,733
0	0	0	4,445	60,258
0	0	0		19,745
1,741	2,372	273	17,780	77,524
0	157,167	692,914	353,876	1,575,834
0	0	0	0	38,425
87,327	0	0	0	87,327
0	0	0	66,909	187,899
<u>89,068</u>	<u>159,539</u>	<u>693,187</u>	<u>737,745</u>	<u>3,131,074</u>
0	0	0	5,421	443,517
0	0	0	16,590	552,371
0	0	0	13,020	237,741
0	0	0	59,872	115,743
0	0	0	0	270,822
0	0	0	2,400	417,892
0	718,868	758,126	338,240	2,055,638
0	718,868	758,126	435,543	4,093,724
<u>89,068</u>	<u>(559,329)</u>	<u>(64,939)</u>	<u>302,202</u>	<u>(962,650)</u>
0	670,000	0	0	670,000
0	(13,400)	0	0	(13,400)
0	26,694	31,876	163,853	776,845
(51,950)	0	0	(519,397)	(684,835)
<u>(51,950)</u>	<u>683,294</u>	<u>31,876</u>	<u>(355,544)</u>	<u>748,610</u>
37,118	123,965	(33,063)	(53,342)	(214,040)
28,889	0	33,063	881,702	2,021,330
<u>66,007</u>	<u>123,965</u>	<u>0</u>	<u>828,360</u>	<u>1,807,290</u>

(Continued)

City of Emmetsburg, Iowa  
Statement of Revenues, Expenditures, and Changes in Fund Balance-  
Governmental Funds  
Year Ended June 30, 2006  
(Page 2 of 2)

(Continued)

Net change in fund balances-total governmental funds \$ (214,040)

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Governmental funds report capital outlays as expenditures while  
governmental activities report depreciation expense to allocate  
those expenditures over the life of the assets:

Capital asset purchases capitalized	1,871,490
Depreciation	(172,511)

Revenues reported in the Statement of Activities last year  
and reported in the governmental funds this year:

Interest receivable	(5,200)
---------------------	---------

Repayment of debt principal is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the  
Statement of Net Assets:

Bonds paid	280,000
Notes paid	48,000

Proceeds from issuing long-term liabilities provide current financial  
resources to governmental funds, but issuing debt increases  
long-term liabilities in the Statement of Net Assets:

Bonds issued	(670,000)
Discount on general obligation bonds	13,400
Amortization of discount recorded in interest	(2,862)

Some expenses reported in the Statement of Activities do not require  
the use of current financial resources and therefore are not reported  
as expenditures in governmental funds:

Net change in accrued interest on debt	<u>1,282</u>
--	--------------

Change in net assets of governmental activities	\$ <u><u>1,149,559</u></u>
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See notes to financial statements.

City of Emmetsburg, Iowa  
Statement of Net Assets-Proprietary Funds  
June 30, 2006

	Business-Type Activities		
	Solid Waste	Cemetery	Total
<b>ASSETS</b>			
Current assets:			
Pooled cash and cash equivalents	\$ 276,839	32,586	309,425
Accounts receivable	14,195	35	14,230
Inventories at cost	10,401	0	10,401
Total current assets	<u>301,435</u>	<u>32,621</u>	<u>334,056</u>
Capital assets:			
Land improvements	0	19,791	19,791
Building	21,096	2,795	23,891
Equipment and vehicles	187,378	7,034	194,412
Less: Accumulated depreciation	<u>(164,223)</u>	<u>(9,102)</u>	<u>(173,325)</u>
Net capital assets	<u>44,251</u>	<u>20,518</u>	<u>64,769</u>
Total assets	<u>\$ 345,686</u>	<u>53,139</u>	<u>398,825</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 12,930	856	13,786
Other liabilities	1,468	0	1,468
Accrued compensated absences	3,767	0	3,767
Total current liabilities	<u>18,165</u>	<u>856</u>	<u>19,021</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	44,251	20,518	64,769
Unrestricted	283,270	31,765	315,035
Total net assets	<u>327,521</u>	<u>52,283</u>	<u>379,804</u>
Total liabilities and net assets	<u>\$ 345,686</u>	<u>53,139</u>	<u>398,825</u>

See notes to financial statements.

City of Emmetsburg, Iowa  
Statement of Revenues, Expenses, and Changes in Fund Net Assets-  
Proprietary Funds  
Year Ended June 30, 2006

	Business-Type Activities		
	<u>Solid Waste</u>	<u>Cemetery</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services:			
Sanitation fees	\$ 288,210	0	288,210
Cemetery fees	0	13,700	13,700
Total charges for services	288,210	13,700	301,910
Sale of lots	0	2,630	2,630
Total revenues	288,210	16,330	304,540
OPERATING EXPENSES:			
Business-type activities:			
Solid waste-current operations	297,884	0	297,884
Cemetery-current operations	0	22,127	22,127
Depreciation	20,531	1,560	22,091
Total operating expense	318,415	23,687	342,102
Operating income (loss)	(30,205)	(7,357)	(37,562)
NON-OPERATING REVENUE (EXPENSE):			
Donations	0	3,000	3,000
Interest income	9,078	2,837	11,915
	9,078	5,837	14,915
Income (loss) before transfers	(21,127)	(1,520)	(22,647)
Transfers from other funds	0	8,000	8,000
Changes in net assets	(21,127)	6,480	(14,647)
Total net assets, beginning	348,648	45,803	394,451
Total net assets, ending	\$ 327,521	52,283	379,804

See notes to financial statements.

City of Emmetsburg, Iowa  
Statement of Cash Flows  
Increase (Decrease) in Cash and Cash Equivalents-  
Proprietary Funds  
Year Ended June 30, 2006

	Business-Type Activities		
	Solid Waste	Cemetery	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customer	\$ 284,095	16,344	300,439
Cash payments for goods and services	(194,110)	(21,055)	(215,165)
Cash payments to employees	(102,721)	(1,329)	(104,050)
Net cash provided (use) by operating activities	(12,736)	(6,040)	(18,776)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Donations	0	3,000	3,000
Transfers from other funds	0	8,000	8,000
Net cash provided (used) by non-capital financing activities	0	11,000	11,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Net acquisition of capital assets	(730)	(61)	(791)
Net cash used for capital and related financing activities	(730)	(61)	(791)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest income	9,078	2,837	11,915
Net cash provided by investing activities	9,078	2,837	11,915
Net increase (decrease) in cash and cash equivalents	(4,388)	7,736	3,348
CASH AND CASH EQUIVALENTS, beginning	281,227	24,850	306,077
CASH AND CASH EQUIVALENTS, ending	\$ 276,839	32,586	309,425
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (30,205)	(7,357)	(37,562)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	20,531	1,560	22,091
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(4,115)	14	(4,101)
(Increase) decrease in inventory	(3,831)	0	(3,831)
Increase (decrease) in accounts payable	3,789	(257)	3,532
Increase (decrease) in other liabilities	104	0	104
Increase (decrease) in compensated absences	991	0	991
Net cash provided (used) by operating activities	\$ (12,736)	(6,040)	(18,776)

See Notes to financial statements.

## Notes to Financial Statements

### 1. Reporting Entity, Nature of Operations, Description of Funds and Account Group, and Significant Accounting Policies

#### General Statement

The proprietary activities, including the component unit, apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reporting Entity

For financial reporting purposes, the City of Emmetsburg, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Emmetsburg, Iowa (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. Complete financial statements of the individual component units, which issued separate financial statements as noted below, can be obtained from their respective administrative offices.

#### Jointly Governed Organizations

The City also participates in one jointly governed organization for which the City is not financially accountable or that the nature and significance of the relationship with the City is such that exclusion does not cause the City's financial statements to be misleading or incomplete. The Mayor and Police Chief are members of the Palo Alto County Joint E911 Service Board. The City also participated with Iowa Lakes Community College in the operation of the Community Library and Wellness Center. The City has recorded its share of the expense in the Governmental Fund. The Wellness Center and Library is an asset of the College and its audit is included in the College audit.



Discretely Presented Component Units - The Emmetsburg Municipal Utilities (gas, water and sanitation) is presented in separate columns to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The information reported in these financial statements is the data of the primary government. The data of the component units necessary to report in accordance with GAAP are not included. A five-member board appointed by the City Council governs the Utility and Utility's operating budget is subject to the approval of the City Council. The Utilities is accounted for as a proprietary fund in these financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Utilities' meets the definition of a component unit, which should be discretely presented.

#### Nature of Operations

The City of Emmetsburg, Iowa was incorporated in 1877 under the provision of the State of Iowa and operates under the Home Rule provision of the Iowa Constitution. The City operates under the mayor-council form of government and provides numerous services to citizens including:

Public safety, public works, culture and recreation, community and economic development, and general government services. It also operates the gas, water, and sanitation utilities, which is a discrete component unit as explained above.

#### Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

A Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in Capital Assets, Net of Related Debt - which consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets - which result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - which consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided

by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental, and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

### **Governmental Funds**

#### **General Fund**

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

#### **Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

#### **Capital Project Funds**

The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes several individual Capital Project Funds and they are used to account for the acquisition of capital assets. Not all of the funds expended in these funds will be capitalized as City assets since the projects they are expended on are not on City property. An example of this is the lake dredging project. The lake belongs to the State of Iowa, not the City of Emmetsburg, Iowa.

#### **Debt Service Funds**

The Debt Service Funds accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the City other than debt service payments made by enterprises funds.

## Proprietary Funds

### Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

## Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

<b>Major Fund:</b>	<b>Brief Description</b>
General	See above for description.
Special Revenue Funds:	
Road Use Tax	Accounts for the state revenue allocated to the City, which is used to maintain and improve the City's streets.
Debt Service Fund	See above for description.
Special Assessment Fund (A Debt Service Fund)	See above for description.
Capital Projects Funds:	
Highway 18/Urban	See Capital Projects description above.
Airport Runway	See Capital Projects description above.
<b>Nonmajor Fund:</b>	
Special Revenue Funds:	
Emergency Fund	Accounts for a special \$.27/1.000 tax levy.
Employee Benefit Fund	Accounts for property taxes levied to finance the payment of payroll taxes including IPERS, group insurance, medical reimbursements, workmen's compensation and unemployment compensation.
Local Option Sales Tax Fund	Accounts for the revenues from the tax authorized by referendum and uses 80% for infrastructure and 20% for community betterment.

Special Revenue Funds  
(Continued):

South TIF Fund	Accounts for tax increment revenues used to pay for certain public improvements within the Urban Renewal area.
TIF North Fund	See TIF Fund description above.
TIF North Set Aside Fund	Accounts for amounts set aside for low and moderate income housing assistance.
CDBG Housing Rehab Fund	Accounts for federal and local funds used to assist low and moderate income families for housing rehabilitation.
Wild Rose Allocation Fund	Accounts for allocated funds received from the Wild Rose Casino.
ECDC Trust Fund	Accounts for the assets donated by the community for economic development and lake improvements.
Perpetual Care Fund	Accounts for money accumulated by law for the operations of the cemetery.
Revolving ECDC Loan Fund	Accounts for money loaned to local businesses.
Capital Project Funds:	For all funds that follow, see description for Capital Projects Funds above.
Revolving Fund	
Lake Project Fund	
Sewell Park Project Fund	
South Grand Project Fund	
Rail Road Surface Fund	
Kearny Park Fund	
First Street Project Fund	
Airport Taxiway & Apron Fund	
CDBG Sewer Project Fund	
Airport Fuel Facility Fund	

## Significant Accounting policies

### Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

#### Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In the financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are

recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after the year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Property taxes, franchise taxes, licenses, interest, fines and forfeitures, and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and share revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred, all other grant requirements have been met, and the criteria for accrual has been met.

All proprietary funds utilize the accrual basis of accounting.

#### Assets, Liabilities, and Equity

##### Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments are not material and are carried at cost.

##### Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term Interfund loans are reported as "Interfund receivables and payables." Long-term Interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

##### Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowance for uncollectible accounts are not recorded. The City and Utilities uses the direct write off method. Based upon historical trends and the City's and Utilities monitoring of accounts receivable, the amount that should be recorded in the allowance for uncollectible accounts, if any, is not material. The City and Utilities writes off what has been determined to be uncollectible at year-end.

##### Inventories

Inventories are valued at cost using the first-in/first-out method.

## Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

## Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2003.

Prior to July 1, 2003, governmental funds' infrastructure assets and other fixed assets were not capitalized. Other fixed assets such as rolling stock and major equipment with a value of \$5,000 or more were capitalized at estimated historical costs. Infrastructure prior to July 1, 2003 is not capitalized in these financial statements.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	5 - 15 years
Vehicles	5 - 15 years
Improvements	15 - 20 years
Infrastructure	40 years
Buildings	20 - 50 years

## Component Units:

Structure and Plant	20 - 50 years
Distribution System	50 years
Equipment, Meters and Mains	5 - 50 years

No detailed depreciation schedule or continuing property record is maintained for the component units. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of plant and equipment. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expense and overhead should be capitalized.

## Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

## Restricted Assets

Restricted assets include cash, including time deposits of the component units that are legally restricted as to their use. The restricted assets are related to utility meter deposits.

## Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after the year-end and special assessments not collected.

Deferred revenue in the Statement of Net Assets consists primarily of special assessments that are not available, succeeding year property tax, and tax increment financing that will not be recognized as revenue until the year for which they are levied.

## Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists of notes and bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

## Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as current in the government-wide statements since historical trends indicate none are long-term. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, which in this case is the same as the government-wide figures. The proprietary funds report the liability as it is incurred.



## Fund Equity

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures exceeded the amounts budgeted in debt service function.

## Revenues, Expenditures, and Expenses

### Property Taxes

Under State law, municipalities are limited in their ability to levy a property tax. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the accrual period July 1, 2005 through June 30, 2006 and reflect tax asking contained in the budget certified to the County Board of Supervisors in March 2005. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide financial statements.

### Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as Interfund transfers. For the purpose of the Statement of Activities, all Interfund transfers between individual governmental funds have been eliminated.

## Other Accounting Policies and Accounting and Reporting Practices

### Cash Management and Investments

The primary government maintains one primary demand deposit account and the discrete component unit maintains another demand deposit account through which the majority of its cash resources are processed. Both the primary government and component unit each have investment activities carried on in an investment pool. The earnings on the pooled investments are allocated to the funds on a systematic basis.

### Assets Whose Use Is Limited

Assets whose use is limited include assets set aside by the board of trustees or city council specifically designated for future capital improvements or other special future expenses, over which the board or city council retains control and may at its discretion subsequently use for other purposes.

## 2. Cash and Investments

The City's deposits at June 30, 2006 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts, and warrants or improvement certificates of a drainage district. The City's investments at June 30, 2006 consist primarily of certificates of deposit and savings accounts, all of which are recorded in cash and cash equivalents or certificates of deposit. The City was given a donation of insured registered corporate stock with a book value and market value of \$2,041, which is held in the name of the City.

## 3. Component Unit – Notes Receivable

The Utilities loaned \$50,000 to a local business to be used for expansion on September 2, 1999. The note bears interest at five percent over a fifteen-year amortization schedule with one balloon payment due at the end of five years. Interest only was paid the first two years on a quarterly basis, with principal and interest due after the first two years on a monthly basis. The current balance of the \$50,000 loan is \$46,105.

## 5. Pension and Retirement Benefits

The City of Emmetsburg, Iowa contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City of Emmetsburg, Iowa is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by State statute. The City of Emmetsburg, Iowa and component unit contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$68,256, \$67,309 and \$66,972, respectively, equal to the required contributions for each year.

## 6. Deferred Compensation Plan

The City, exclusive of the Emmetsburg Municipal Utilities, offers a Deferred Compensation Plan for its employees under IRS Code Section 457. The City has executed a Declaration of Trust of the ICMA Retirement Trust, intending that the execution is to be operative with

respect to any retirement or deferred compensation plan established by the City. All the assets of the plan are invested in the ICMA Retirement Trust.

7. Other Employee Benefits

The City maintains hospitalization and life insurance coverage for all of its full-time employees. The City pays all costs of the basic insurance. The City also partially self-insures a portion of the health insurance through a medical reimbursement plan. The City had no material claims incurred but not reported as of June 30, 2006.

8. Capital Assets

Capital asset activity for the year ended June 30, 2006, is as follows:

**Governmental Activities:**

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
<b>Asset costs</b>				
Land and land improvements	\$ 0	2,525	0	2,525
Machinery and equipment, vehicles	1,594,013	255,159	(19,950)	1,829,222
Buildings	642,072	9,842	0	651,914
Infrastructure	1,906,938	833,925	0	2,740,863
Construction in progress	54,948	770,039	0	824,987
Total assets costs	4,197,971	1,871,490	(19,950)	6,049,511
<b>Less accumulated depreciation</b>				
Machinery and equipment	1,131,195	102,307	(19,950)	1,213,552
Buildings	296,699	15,347	0	312,047
Infrastructure	45,798	54,857	0	100,655
Total accumulated depreciation	1,473,692	172,511	(19,950)	1,626,254
<b>Governmental activities capital assets, net</b>	<b>\$ 2,724,279</b>	<b>1,698,979</b>	<b>0</b>	<b>4,423,257</b>

<b>Business-type activities:</b>	<b>\$</b>			
Land and improvements	19,791	0	0	19,791
Machinery and equipment, vehicles	193,622	791	0	194,413
Building	23,891	0	0	23,891
Total assets cost	237,304	791	0	238,095
<b>Less accumulated depreciation</b>				
Land and improvements	754	696	0	1,450
Machinery and equipment, vehicles	142,597	20,728	0	163,325
Building	7,884	667	0	8,551
Total accumulated depreciation	151,235	22,091	0	173,326
<b>Business-type assets, net</b>	<b>\$ 86,069</b>	<b>(21,300)</b>	<b>0</b>	<b>64,769</b>

Depreciation expense was charged to functions of the primary government as follows:

**Governmental activities:**

Public safety	\$ 35,868
Public works	110,858
Cultural and recreation	25,106
General government	679
Total depreciation expense	<u>\$ 172,511</u>

**Business type activities:**

Solid Waste	\$ 20,531
Cemetery	1,560
Total depreciation expense	<u>\$ 22,091</u>

**Discretely presented  
component units:**

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
<b>Gas department:</b>				
Land	\$ 1,039	0	0	1,039
Structures and plant	333,319	0	0	333,319
Distribution system	1,100,919	53,173	0	1,154,092
Equipment, meters and mains	767,315	27,304	0	794,619
Total assets cost	2,202,592	80,477	0	2,283,069
Less accumulated depreciation	1,379,690	55,032	0	1,434,722
Gas department assets, net	<u>\$ 822,902</u>	<u>25,445</u>	<u>0</u>	<u>848,347</u>

**Water department:**

Land	\$ 67,067	0	0	67,067
Structures and plant	517,471	0	0	517,471
Distribution system	1,889,404	0	0	1,889,404
Equipment, meters and mains	969,061	17,958	0	987,019
Construction in progress	192,977	3,012,394	0	3,205,371
Total assets cost	3,635,980	3,030,352	0	6,666,332
Less accumulated depreciation	1,532,528	78,157	0	1,610,685
Gas department assets, net	<u>\$ 2,103,452</u>	<u>2,952,195</u>	<u>0</u>	<u>5,055,647</u>

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
<b>Sanitation department:</b>				
Land	\$ 84,542	0	0	84,542
Structures and plant	4,321,950	26,939	0	4,348,889
Distribution system	1,399,559	12,424	0	1,411,983
Equipment, meters and mains	535,653	6,779	0	542,432
Construction in progress	726,762	280,692	0	1,007,454
Total assets cost	7,068,466	326,834	0	7,395,300
Less accumulated depreciation	2,608,617	151,275	0	2,759,892
Sanitation department assets, net	\$ 4,459,849	175,559	0	4,635,408

#### 9. Changes in Long-term Debt

The following is a summary of debt transactions of the City primary government for the year ended June 30, 2006:

Governmental activities:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
General obligation bonds	\$ 2,140,000	670,000	(280,000)	2,530,000
Notes	48,000	0	(48,000)	0
	\$ 2,188,000	670,000	(328,000)	2,530,000

Bonds were sold at a discount; unamortized discount at June 30, 2006 totaled \$36,813.

Bonds payable at June 30, 2006 comprise the following individual issue:

General obligation street improvement notes:

\$1,060,000 notes due in annual installments of \$65,000, \$70,000, \$75,000, \$80,000, \$85,000, \$90,000, \$95,000, \$105,000, \$110,000, and \$115,000 to June 1, 2009; interest from 4.50% to 5.45% \$ 330,000

General obligation corporate purpose notes:

\$665,000 notes due in annual installments of \$60,000, \$55,000, \$65,000, \$70,000, \$75,000 and \$80,000 to June 1, 2008; interest from 4.05% to 4.55% \$ 155,000

General obligation corporate purpose notes:

\$475,000 notes due in annual installments of \$40,000, \$45,000, \$50,000 and \$55,000 to June 1, 2014; interest from 1.50% to 3.85% \$ 390,000

## General obligation corporate purpose notes, 2005:

\$1,050,000 notes due in annual installments of \$65,000, \$95,000, \$100,000, \$110,000, \$115,000, and \$120,000 to June 1, 2015; interest from 2.75% to 3.90% \$ 985,000

## General obligation street improvement bonds, series 2006:

\$670,000 bonds due in annual installments of \$55,000, \$60,000, \$65,000, \$70,000, \$75,000, and \$80,000 to June 1, 2017; interest from 3.80% to 4.5% \$ 670,000

The annual requirements to retire general long-term debt as of June 30, 2006 are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 320,000	100,997	420,997
2008	390,000	86,923	476,923
2009	320,000	70,933	390,933
2010	210,000	57,793	267,793
2011	220,000	50,417	270,417
2012-17	<u>1,070,000</u>	<u>126,498</u>	<u>1,196,498</u>
	<u>\$ 2,530,000</u>	<u>493,561</u>	<u>3,023,561</u>

The following is a summary of debt transactions for the component units for the year ended June 30, 2006:

## Long-Term Debt

The Utilities entered into a Loan and Disbursement Agreement with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as part of the Iowa Sewage Treatment Works Financing Program, as a means of financing the construction of certain wastewater treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities' agrees, during the term of the loan, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bonds Series 2005 due in annual payments of \$102,000-\$179,000 to June 1, 2026, and interest at 3.00%. The June 30, 2006 loan balance totaled \$2,635,731, with unadvanced funds of \$114,269.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005 MC60R due in annual payments of \$20,000-\$35,000 to June 1, 2025, and interest at 3.00%. The June 30, 2006 loan balance totaled \$578,000, with unadvanced funds of \$2,000.

\$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of \$6,000-\$15,000 to June 1, 2018 and interest at 3.92%. The June 30, 2006 loan balance totaled \$132,000.

\$358,000 Sewer Revenue Bonds Series 1998A due in annual payments of \$13,000- \$25,000 to June 1, 2018 and interest at 4.23%. The June 30, 2006 Loan balance totaled \$250,000.

Annual debt service requirements related to the loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 157,000	115,649	272,649
2008	160,000	110,601	270,601
2009	164,000	105,463	269,463
2010	167,000	100,205	267,205
2011	170,000	94,857	264,857
2012-25	<u>2,777,731</u>	<u>715,646</u>	<u>3,493,377</u>
	<u>\$ 3,595,731</u>	<u>1,242,421</u>	<u>4,838,152</u>

#### 10. Assets Whose Use is Limited

The composition of assets whose use is limited at June 30, 2006 is in the following table:

	Gas	Water	Sanitation
By Board for:			
Capital improvements and replacement	\$ 940,754	733,829	87,362
Medical reimbursement	39,733	4,138	4,137
Industrial development	870	28,282	32,901
Housing development	<u>12,000</u>	<u>14,000</u>	<u>14,000</u>
	<u>\$ 993,357</u>	<u>780,249</u>	<u>138,400</u>

#### 11. Interfund Receivables and Payables

Interfund receivables and payables are documented on the Balance Sheet-Governmental Funds. These balances will be repaid from future revenue.

#### 12. Interfund Operating Transfers

##### Major Funds:

	Transfers In	Transfers Out
General fund:		
Employee benefit fund	\$ 195,749	0
Emergency fund	17,063	0
Local option sales tax fund	42,500	0
Capital projects revolving fund	15,327	10,759
ECDC trust fund	0	6,000
Lake capital projects fund	0	7,986
Cemetery fund	0	8,000
TIF north set aside fund	18,000	0

General fund (continued):	<u>Transfers In</u>	<u>Transfers Out</u>
Airport runway capital projects fund	0	28,576
Sewell park capital projects fund	0	2,676
South Grand capital projects fund	100	0
Kearny park capital projects fund	0	14,204
Airport taxiway & apron capital projects fund	0	32,967
Airport fuel facility capital projects fund	0	2,320
Component unit	88,658	0
Total general fund	<u>377,397</u>	<u>113,488</u>
Road use tax fund:		
Employee benefit fund	<u>60,591</u>	<u>0</u>
Debt service fund:		
South Grand capital projects fund	12,528	0
Local option sales tax fund	51,956	0
Special assessments fund	51,950	0
Total debt service fund	<u>116,434</u>	<u>0</u>
Debt Service-special assessments fund		
Debt service fund	<u>0</u>	<u>51,950</u>
Highway 18/urban capital projects fund:		
Local option sales tax fund	<u>26,694</u>	<u>0</u>
Airport runway capital projects fund		
General fund	28,576	0
Local option sales tax fund	3,300	0
Total airport runway capital projects fund	<u>31,876</u>	<u>0</u>
<b>Other Governmental Funds (Nonmajor)</b>		
Emergency fund:		
General fund	<u>0</u>	<u>17,063</u>
Employee benefit fund:		
General fund	0	195,749
Road use fund	0	60,590
Total employee benefit fund	<u>0</u>	<u>256,339</u>



Local option sales tax fund:	<u>Transfer In</u>	<u>Transfer Out</u>
General fund	0	42,500
Highway 18/urban capital projects fund	0	26,694
Debt service fund	0	51,955
ECDC trust fund	0	9,030
Kearny park capital projects fund	0	40,000
Airport runway capital projects fund	0	3,300
Airport taxiway & apron capital projects fund	0	10,994
Airport fuel facility capital projects fund	0	240
Component unit	1,000	0
Total local option sales tax fund	<u>1,000</u>	<u>184,713</u>
TIF north fund:		
TIF north set aside fund	<u>0</u>	<u>15,327</u>
TIF north set aside fund:		
TIF north fund	15,327	0
General fund	<u>0</u>	<u>18,000</u>
Total TIF north set aside fund	<u>15,327</u>	<u>18,000</u>
ECDC trust fund:		
General	6,000	0
Local option sales tax fund	<u>9,030</u>	<u>0</u>
Total ECDC trust fund	<u>15,030</u>	<u>0</u>
Capital projects revolving fund:		
General fund	<u>10,759</u>	<u>15,327</u>
Lake capital project fund:		
General fund	<u>7,986</u>	<u>0</u>
Sewell park capital projects fund:		
General fund	2,676	0
Component unit	<u>6,000</u>	<u>0</u>
Total Sewell park capital projects fund	<u>8,676</u>	<u>0</u>
South Grand capital projects fund:		
General fund	0	100
Debt service fund	<u>0</u>	<u>12,528</u>
Total South Grand capital projects fund	<u>0</u>	<u>12,628</u>

Kearny park capital projects fund:	<u>Transfer In</u>	<u>Transfer Out</u>
General fund	14,204	0
Local option sales tax fund	40,000	0
Total Kearny park capital projects fund	<u>54,204</u>	<u>0</u>
Airport taxiway & apron fund:		
General fund	32,967	0
Local option sales tax fund	10,994	0
	<u>43,961</u>	<u>0</u>
CDBG sewer capital projects fund:		
Component units	<u>4,350</u>	<u>0</u>
Airport fuel facility capital projects fund:		
General fund	2,320	0
Local option sales tax fund	240	0
	<u>2,560</u>	<u>0</u>
Total transfers in and out of governmental funds	<u>776,845</u>	<u>684,835</u>

### Business-Type Activities-Primary Government

Cemetery fund:		
General fund	<u>8,000</u>	<u>0</u>

### Component Units:

Gas department		
Sanitation department	0	35,000
General fund	0	79,658
Sewell park capital projects	0	2,000
Water department		
General fund	0	5,000
Sewell park capital projects	0	2,000
Sanitation department		
Gas department	35,000	0
General fund	0	5,000
Sewell park capital projects	0	2,000
Total transfers in and out of component units	<u>35,000</u>	<u>130,658</u>

Total transfers	<u>\$ 819,845</u>	<u>815,493</u>
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Component unit shows the transfer to CDBG sewer capital projects as an increase in equipment of \$4,350.

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### 13. Interfund Receivables and Payables

The details of interfund receivables and payables at June 30, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt service fund	General fund	\$ <u>23,368</u>

The interfund balance was the result of recording income in the wrong fund. The balance will be repaid in the next fiscal year.

### 14. Risk Management

The City of Emmetsburg, Iowa is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance. There have been no significant reductions in insurance coverage during the fiscal year 2006. Settled claims have not exceeded commercial excess coverage in any of the past three years.

### 15. Construction in Progress

#### **Primary Government**

#### Highway 18 Improvements

The City has entered into a contract for U.S. Highway 18 improvements. \$718,868 is recorded in construction in progress for construction, engineering and other expense through June 30, 2006. The total construction contract with Tri-State Paving Company is for \$793,050. Total completed contract cost through June 30, 2006 was for \$621,590. The project is partially funded with a RISE grant in the amount of \$402,634. The City has recorded \$157,167 of the \$402,634 grant in revenue at June 30, 2006.

#### Airport Taxiway & Apron improvements

The City has started a project to rehabilitate the taxiway and apron at the Emmetsburg Municipal Airport. The total estimated cost of the project is \$509,700. On August 23, 2006 the City was awarded a Federal Aviation Administration, Airport Division grant for \$484,215, leaving local cost of \$25,485. Construction cost to date is \$55,559.

#### Airport Fuel Facility Improvements

The City started a fuel facility improvements project at the Emmetsburg Municipal Airport. The total estimated cost of the project is \$49,400. The City was awarded a maximum grant of \$31,780 or seventy percent of the total cost of construction of \$45,400. The City is responsible for the remaining cost. Construction cost to date is \$2,560.

### Component Unit

The Utilities has entered into a water treatment plant and well replacement contract in the water department. The cost incurred through June 30, 2006 includes engineering and related testing fees. The Utilities, as a subrecipient of the City of Emmetsburg, Iowa, has been awarded a \$600,000 Community Development Block Grant from the Iowa Department of Economic Development for the project, of which \$549,619 in grant proceeds were received during the year ended June 30, 2006. This leaves an estimated cost of \$2,842,533 that will be paid with local government funds. The breakdown of the cost to date and estimated future costs is as follows:

<u>Water Department</u>	
Cost Incurred through June 30, 2006	\$ 3,205,371
Estimated cost to complete	<u>237,162</u>
Total estimated cost	<u>\$ 3,442,533</u>

The Utilities has also entered into a sewer outfall improvement contract in the sanitation department. The cost incurred through June 30, 2006 includes engineering and related testing fees. The Utilities, as a subrecipient of the City of Emmetsburg, Iowa, has been awarded a \$451,000 Community Development Block Grant from the Iowa Department of Economic Development for the project, of which \$290,929 in grant proceeds were received during the year ended June 30, 2006. This leaves a cost of \$649,537 to be paid for with local government funds. The breakdown of the cost to date and estimated future costs is as follows:

<u>Sanitation Department</u>	
Cost Incurred through June 30, 2006	\$ 1,007,484
Estimated cost to complete	<u>93,053</u>
Total estimated cost	<u>\$ 1,100,537</u>

#### 16. Related Party Transactions

The component unit bills and collects for garbage services provided for the primary government to its residents. During the year ended June 30, 2006, the component unit remitted billings to the primary government of \$267,608.

17. New Governmental Accounting Standards Board (GASB) Standards

The following new standards could affect the City of Emmetsburg, Iowa:

The Governmental Accounting Standards Board (GASB) has issued three statements not yet implemented by the City of Emmetsburg, Iowa. The statements, which might impact the City of Emmetsburg, Iowa are as follows:

Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* issued in April 2004, will be effective for the City for the year ended June 30, 2008. This statement establishes uniform financial reporting standards for other post employment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* issued June 2004, Will be effective for the City for the year ended June 30, 2009. This statement establishes standards for the measurement, recognition, and display of (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Statement No. 47, *Accounting for Termination Benefits* issued June 2005, establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this statement is effective for the year ended June 30, 2006.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

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City of Emmetsburg, Iowa  
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses  
 and Changes in Fund Balances- Budget and Actual  
 Governmental Funds and Proprietary Funds  
 Year Ended June 30, 2006

		Actual	
	Governmental Funds	Proprietary Funds	Total
<b>REVENUES:</b>			
Property taxes	\$ 1,029,329	0	1,029,329
Tax increment financing	54,733	0	54,733
Other city tax	60,258	0	60,258
Licenses and permits	19,745	0	19,745
Use of money and property	77,524	74,548	152,072
Intergovernmental	1,575,834	840,548	2,416,382
Charges for services	38,425	4,331,026	4,369,451
Special assessments	87,327	0	87,327
Miscellaneous	187,899	5,630	193,529
Total Revenues	<u>3,131,074</u>	<u>5,251,752</u>	<u>8,382,826</u>
<b>EXPENDITURES:</b>			
Public safety	443,517	0	443,517
Public works	552,371	0	552,371
Culture and recreation	237,741	0	237,741
Community and economic development	115,743	0	115,743
General government	270,822	0	270,822
Debt service	417,892	0	417,892
Business type	0	3,941,174	3,941,174
Capital outlay	2,055,638	0	2,055,638
Total expenditures	<u>4,093,724</u>	<u>3,941,174</u>	<u>8,034,898</u>
Excess (deficiency) of revenues over expenditure	<u>(962,650)</u>	<u>1,310,578</u>	<u>347,928</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	670,000	0	670,000
Discount on bonds	(13,400)	0	(13,400)
Transfers from other funds	776,845	8,000	784,845
Transfers to other funds	(684,835)	(95,658)	(780,493)
Total other financing sources (uses)	<u>748,610</u>	<u>(87,658)</u>	<u>660,952</u>
Net changes in fund balances	(214,040)	1,222,920	1,008,880
Fund balance (deficit), beginning	<u>2,021,330</u>	<u>10,211,019</u>	<u>12,232,349</u>
Fund balance, ending	<u>\$ 1,807,290</u>	<u>11,433,939</u>	<u>13,241,229</u>

**Actual and budget includes the component unit revenues and expenses**

See notes to financial statements.

Budget		
Original	Final	Final to Actual Variance
1,019,851	1,019,851	9,478
63,000	63,000	(8,267)
235,677	235,677	(175,419)
26,271	26,271	(6,526)
56,535	650,935	(498,863)
4,196,658	4,606,388	(2,190,006)
3,641,425	3,648,475	720,976
32,500	102,500	(15,173)
132,450	132,450	61,079
<u>9,404,367</u>	<u>10,485,547</u>	<u>(2,102,721)</u>
491,772	529,805	(86,288)
792,682	844,804	(292,433)
314,976	346,251	(108,510)
510,258	644,113	(528,370)
273,381	283,466	(12,644)
342,370	364,126	53,766
5,508,257	7,862,363	(3,921,189)
975,655	2,104,080	(48,442)
<u>9,209,351</u>	<u>12,979,008</u>	<u>(4,944,110)</u>
<u>195,016</u>	<u>(2,493,461)</u>	<u>2,841,389</u>
216,699	216,699	453,301
0	0	(13,400)
717,472	994,203	(209,358)
(717,472)	(994,203)	213,710
<u>216,699</u>	<u>216,699</u>	<u>444,253</u>
411,715	(2,276,762)	3,285,642
<u>9,856,175</u>	<u>9,856,175</u>	<u>2,376,174</u>
<u>10,267,890</u>	<u>7,579,413</u>	<u>5,661,816</u>



City of Emmetsburg, Iowa  
Combining Balance Sheet-Nonmajor Governmental Funds  
June 30, 2006  
(Page 1 of 3)

	Special Revenue	
	Emergency Fund	Employee Benefit Fund
<b>ASSETS</b>		
Pooled cash	\$ 141	34,522
Investments	0	0
Receivables:		
Property taxes, net	348	4,605
Accounts	0	0
Notes, current	0	0
Component units	0	0
Intergovernmental	0	0
Total assets	<u>\$ 489</u>	<u>39,127</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 0	0
Deferred revenues	0	0
Total liabilities	<u>0</u>	<u>0</u>
<b>FUND BALANCE (DEFICITS)</b>		
Fund Balances (Deficits)		
Unreserved, Undesignated		
Reported in Special revenue	489	39,127
Reported in Capital projects	0	0
Unreserved, Designated		
Reported in Special revenue	0	0
Reported in Capital projects	0	0
Total fund balances (deficits)	<u>489</u>	<u>39,127</u>
Total liabilities and fund balances (deficits)	<u>\$ 489</u>	<u>39,127</u>

## Special Revenue

Local Option Sales Tax Fund	South TIF Fund	TIF North Fund	TIF North Set Aside Fund	CDBG Housing Rehab Fund
82,237	27,548	48,292	51,849	4,072
0	0	0	0	0
0	0	0	0	0
0	0	16	0	0
0	0	0	0	49
0	0	0	0	0
22,060	0	0	0	0
<u>104,297</u>	<u>27,548</u>	<u>48,308</u>	<u>51,849</u>	<u>4,121</u>
1,429	0	0	0	0
0	0	0	0	50
<u>1,429</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>50</u>
102,868	27,548	48,308	51,849	4,071
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
<u>102,868</u>	<u>27,548</u>	<u>48,308</u>	<u>51,849</u>	<u>4,071</u>
<u>104,297</u>	<u>27,548</u>	<u>48,308</u>	<u>51,849</u>	<u>4,121</u>

(Continued)

City of Emmetsburg, Iowa  
Combining Balance Sheet-Nonmajor Governmental Funds  
June 30, 2006  
(Page 2 of 3)

	Special Revenue	
	Wild Rose Allocation Fund	ECDC Trust Fund
ASSETS		
Pooled cash	\$ 9,192	109,071
Investments	0	2,351
Receivables:		
Property taxes, net	0	0
Accounts	2,763	0
Notes, current	0	0
Component units	0	0
Intergovernmental	0	0
Total assets	<u>\$ 11,955</u>	<u>111,422</u>
LIABILITIES		
Accounts payable	\$ 0	4,820
Deferred revenues	0	0
Total liabilities	<u>0</u>	<u>4,820</u>
FUND BALANCE (DEFICITS)		
Fund Balances (Deficits)		
Unreserved, Undesignated		
Reported in Special revenue	11,955	0
Reported in Capital projects	0	0
Unreserved, Designated		
Reported in Special revenue	0	106,602
Reported in Capital projects	0	0
Total fund balances (deficits)	<u>11,955</u>	<u>106,602</u>
Total liabilities and fund balances (deficits)	<u>\$ 11,955</u>	<u>111,422</u>

(Continued)

Special Revenue		Capital Projects		
Perpetual Care Fund	ECDC Revolving Fund	Revolving Fund	Lake Project Fund	Sewell Park Project Fund
64,605	26,921	68,451	216,381	11,473
0	0	0	0	0
0	0	0	0	0
0	0	0	59	0
0	0	0	0	0
0	0	0	0	3,000
0	0	0	0	0
<u>64,605</u>	<u>26,921</u>	<u>68,451</u>	<u>216,440</u>	<u>14,473</u>
0	0	0	5,644	0
0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>5,644</u>	<u>0</u>
64,605	26,921	0	0	0
0	0	0	210,796	14,473
0	0	0	0	0
0	0	68,451	0	0
<u>64,605</u>	<u>26,921</u>	<u>68,451</u>	<u>210,796</u>	<u>14,473</u>
<u>64,605</u>	<u>26,921</u>	<u>68,451</u>	<u>216,440</u>	<u>14,473</u>

(Continued)

City of Emmetsburg, Iowa  
Combining Balance Sheet-Nonmajor Governmental Funds  
June 30, 2006  
(Page 3 of 3)

	Capital Projects	
	South Grand Project Fund	Rail Road Surface Fund
<b>ASSETS</b>		
Pooled cash	\$ 1,120	19,240
Investments	0	0
Receivables:		
Property taxes, net	0	0
Accounts	0	0
Notes, current	0	0
Component units	0	0
Intergovernmental	0	0
Total assets	<u>\$ 1,120</u>	<u>19,240</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 1,100	0
Deferred revenues	0	0
Total liabilities	<u>1,100</u>	<u>0</u>
<b>FUND BALANCE (DEFICITS)</b>		
Fund Balances (Deficits)		
Unreserved, Undesignated		
Reported in Special revenue	0	0
Reported in Capital projects	20	19,240
Unreserved, Designated		
Reported in Special revenue	0	0
Reported in Capital projects	0	0
Total fund balances (deficits)	<u>20</u>	<u>19,240</u>
Total liabilities and fund balances (deficits)	<u>\$ 1,120</u>	<u>19,240</u>

(Continued)

Capital Projects			Total Nonmajor
Kearny Park Fund	First Street Project Fund	Airport Taxiway & Apron Fund	Governmental Funds
9,236	26,734	4,837	815,922
0	0	0	2,351
0	0	0	4,953
0	0	0	2,838
0	0	0	49
0	0	0	3,000
0	0	0	22,060
<u>9,236</u>	<u>26,734</u>	<u>4,837</u>	<u>851,173</u>
0	0	9,770	22,763
0	0	0	50
<u>0</u>	<u>0</u>	<u>9,770</u>	<u>22,813</u>
0	0	0	377,741
9,236	26,734	(4,933)	275,566
0	0	0	106,602
0	0	0	68,451
<u>9,236</u>	<u>26,734</u>	<u>(4,933)</u>	<u>828,360</u>
<u>9,236</u>	<u>26,734</u>	<u>4,837</u>	<u>851,173</u>

City of Emmetsburg, Iowa  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances-  
Nonmajor Governmental Funds  
Year Ended June 30, 2006  
(Page 1 of 3)

	Special Revenue		
	Emergency Fund	Employee Benefit Fund	Local Option Sales Tax Fund
<b>REVENUES</b>			
Property taxes	\$ 16,871	223,131	0
Tax increment financing	0	0	0
Other city tax	312	4,133	0
Use of money and property	0	0	4,187
Intergovernmental	0	0	236,526
Miscellaneous	0	0	0
Total revenues	<u>17,183</u>	<u>227,264</u>	<u>240,713</u>
<b>EXPENDITURES</b>			
Governmental activities:			
Public safety	0	0	0
Public works	0	0	16,590
Culture and recreation	0	0	0
Community and economic development	0	0	6,354
Debt Service	0	0	0
Capital outlay	0	0	28,285
Total expenditures	<u>0</u>	<u>0</u>	<u>51,229</u>
Excess (deficiency) of revenues over expenditures	<u>17,183</u>	<u>227,264</u>	<u>189,484</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	0	0	1,000
Transfers to other funds	(17,063)	(256,339)	(184,713)
Total other financing sources (uses)	<u>(17,063)</u>	<u>(256,339)</u>	<u>(183,713)</u>
Net changes in fund balances (deficits)	120	(29,075)	5,771
Fund balance (deficit), beginning	369	68,202	97,097
Fund balance (deficit), ending	<u>\$ 489</u>	<u>39,127</u>	<u>102,868</u>

## Special Revenue

South TIF Fund	TIF North Fund	TIF North Set Aside Fund	CDBG Housing Rehab Fund	Wild Rose Allocation Fund
0	0	0	0	0
0	54,733	0	0	0
0	0	0	0	0
858	1,366	1,695	156	32
0	0	0	0	0
0	0	0	2,759	11,923
858	56,099	1,695	2,915	11,955
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	33,333	0	132	0
0	0	0	0	0
0	0	0	0	0
0	33,333	0	132	0
858	22,766	1,695	2,783	11,955
0	0	15,327	0	0
0	(15,327)	(18,000)	0	0
0	(15,327)	(2,673)	0	0
858	7,439	(978)	2,783	11,955
26,690	40,869	52,827	1,288	0
27,548	48,308	51,849	4,071	11,955

(Continued)



City of Emmetsburg, Iowa  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances-  
Nonmajor Governmental Funds  
Year Ended June 30, 2006  
(Page 2 of 3)

	Special Revenue		
	ECDC Trust Fund	Perpetual Care Fund	ECDC Revolving Fund
<b>REVENUES</b>			
Property taxes	\$ 0	0	0
Tax increment financing	0	0	0
Other city tax	0	0	0
Use of money and property	3,204	0	4,144
Intergovernmental	3,850	0	0
Miscellaneous	43,085	720	0
Total revenues	<u>50,139</u>	<u>720</u>	<u>4,144</u>
<b>EXPENDITURES</b>			
Governmental activities:			
Public safety	5,421	0	0
Public works	0	0	0
Culture and recreation	11,678	0	0
Community and economic development	20,053	0	0
Debt Service	2,400	0	0
Capital outlay	2,965	0	0
Total expenditures	<u>42,517</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues over expenditures	<u>7,622</u>	<u>720</u>	<u>4,144</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	15,030	0	0
Transfers to other funds	0	0	0
Total other financing sources (uses)	<u>15,030</u>	<u>0</u>	<u>0</u>
Net changes in fund balances (deficits)	22,652	720	4,144
Fund balance (deficit), beginning	83,950	63,885	22,777
Fund balance (deficit), ending	<u>\$ 106,602</u>	<u>64,605</u>	<u>26,921</u>

(Continued)

Capital Projects					
Revolving Fund	Lake Project Fund	Sewell Park Project Fund	South Grand Project Fund	Rail Road Surface Fund	Kearny Park Fund
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	266	210	599	32
0	100,000	0	0	0	0
390	1,552	3,480	0	0	3,000
390	101,552	3,746	210	599	3,032
0	0	0	0	0	0
0	0	0	0	0	0
0	0	1,342	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	184,148	2,525	0	0	48,000
0	184,148	3,867	0	0	48,000
390	(82,596)	(121)	210	599	(44,968)
10,759	7,986	8,676	0	0	54,204
(15,327)	0	0	(12,628)	0	0
(4,568)	7,986	8,676	(12,628)	0	54,204
(4,178)	(74,610)	8,555	(12,418)	599	9,236
72,629	285,406	5,918	12,438	18,641	0
68,451	210,796	14,473	20	19,240	9,236

(Continued)

City of Emmetsburg, Iowa  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances-  
Nonmajor Governmental Funds  
Year Ended June 30, 2006  
(Page 3 of 3)

	Capital Projects	
	First Street Project Fund	Airport Taxiway & Apron Fund
REVENUES		
Property taxes	\$ 0	0
Tax increment financing	0	0
Other city tax	0	0
Use of money and property	1,018	13
Intergovernmental	0	0
Miscellaneous	0	0
Total revenues	<u>1,018</u>	<u>13</u>
EXPENDITURES		
Governmental activities:		
Public safety	0	0
Public works	0	0
Culture and recreation	0	0
Community and economic development	0	0
Debt Service	0	0
Capital outlay	7,350	48,907
Total expenditures	<u>7,350</u>	<u>48,907</u>
Excess (deficiency) of revenues over expenditures	<u>(6,332)</u>	<u>(48,894)</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	0	43,961
Transfers to other funds	0	0
Total other financing sources (uses)	<u>0</u>	<u>43,961</u>
Net changes in fund balances (deficits)	(6,332)	(4,933)
Fund balance (deficit), beginning	33,066	0
Fund balance (deficit), ending	<u>\$ 26,734</u>	<u>(4,933)</u>

(Continued)

Capital Projects		Total Nonmajor Governmental Funds
CDBG Sewer Project Fund	Airport Fuel Facility Fund	
0	0	240,002
0	0	54,733
0	0	4,445
0	0	17,780
13,500	0	353,876
0	0	66,909
<u>13,500</u>	<u>0</u>	<u>737,745</u>
0	0	5,421
0	0	16,590
0	0	13,020
0	0	59,872
0	0	2,400
13,500	2,560	338,240
<u>13,500</u>	<u>2,560</u>	<u>435,543</u>
0	(2,560)	302,202
4,350	2,560	163,853
0	0	(519,397)
<u>4,350</u>	<u>2,560</u>	<u>(355,544)</u>
4,350	0	(53,342)
(4,350)	0	881,702
<u>0</u>	<u>0</u>	<u>828,360</u>

City of Emmetsburg, Iowa  
Schedule of Revenues by Source and Expenditures by Function-  
All Governmental Funds  
For the Last Four Years

		Modified Accrual Basis			
		2006	2005	2004	2003
<b>REVENUES:</b>					
Property taxes	\$	1,029,329	1,037,229	956,789	1,079,243
Tax increment financing revenue		54,733	135,058	97,240	81,653
Other city tax		60,258	23,268	268,553	239,116
Licenses and permits		19,745	9,846	8,806	9,802
Use of money and property		77,524	56,203	46,966	45,267
Intergovernmental		1,575,834	712,256	663,115	735,501
Charges for services		38,425	55,368	85,757	27,438
Special assessments		87,327	158,407	132,464	32,547
Miscellaneous		187,899	120,229	96,025	225,993
Total	\$	<u>3,131,074</u>	<u>2,307,864</u>	<u>2,355,715</u>	<u>2,476,560</u>
<b>EXPENDITURES:</b>					
Operating:					
Public safety	\$	443,517	406,277	404,511	396,117
Public works		552,371	484,170	694,189	477,027
Culture and recreation		237,741	224,900	236,516	278,924
Community and economic development		115,743	139,648	172,840	198,688
General government		270,822	249,245	254,522	258,911
Debt service		417,892	375,832	272,031	343,988
Capital projects		2,055,638	1,261,356	396,755	959,157
Total	\$	<u>4,093,724</u>	<u>3,141,428</u>	<u>2,431,364</u>	<u>2,912,812</u>

City of Emmetsburg, Iowa  
Schedule of Expenditures of Federal Awards  
For the Year June 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CODA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation Federal Aviation Administration, Airports Division	20.106	3-19-0031-01-2005	\$ 692,914
Emmetsburg Municipal Utilities (Component Unit)			
Pass-through programs from:			
Iowa Department of Economic Development:			
Community Development Block Grant-Water Treatment Plant	14.228	05-WS-038	573,999
Community Development Block Grant-Sanitary Sewer Improvement	14.228	03-WS-099	26,060
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water State Revolving Funds			
Federal funds included in loan balance at June 30, 2006	66.468	FS-74-05-DWSRF-012	<u>1,485,799</u>
Total expenditures of federal awards			<u>\$ 2,778,772</u>

Note A. Basis of Presentation

A schedule of expenditures of federal awards includes the federal grant activity of the City and Emmetsburg Municipal Utilities and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

See Independent Auditors' Report.

# Burdorf, Parrott And Associates, P.C.

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PREFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council  
City of Emmetsburg, Iowa

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of City of Emmetsburg, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 17, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Emmetsburg, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect City of Emmetsburg, Iowa's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no reportable conditions that we consider to be material weaknesses.



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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Emmetsburg, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City of Emmetsburg, Iowa's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, citizens of the City of Emmetsburg, Iowa and other parties to whom the City of Emmetsburg, Iowa may report, including federal and state awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Emmetsburg, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Burdorf, Parrott And Associates, P.C.*

January 17, 2007



# Burdorf, Parrott And Associates, P.C.

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and  
Members of the City Council  
City of Emmetsburg, Iowa

### Compliance

We have audited the compliance of the City Emmetsburg, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The City of Emmetsburg, Iowa's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are the responsibility of City of Emmetsburg, Iowa's management. Our responsibility is to express an opinion on City of Emmetsburg, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Emmetsburg, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Emmetsburg, Iowa's compliance with those requirements.

In our opinion, the City of Emmetsburg, Iowa complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

### Internal Control over Compliance

The management of the City of Emmetsburg, Iowa is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered



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The City of Emmetsburg, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the City of Emmetsburg, Iowa may report, including federal and state awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Bardorf, Parrott And Associates, P.C.*

January 17, 2007

City of Emmetsburg, Iowa  
 Schedule of Findings and Questioned costs  
 Year ended June 30, 2006

**Part I: Summary of the Independent Auditors' Results**

- (a) Qualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
- (g) The programs tested as major programs included the Federal Aviation Administration, Airport Division CFDA Number 20.106, Community Development Block Grant/State's Program CFDA Number 14.228 and the Drinking Water State Revolving Funds CFDA Number 66.468.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Emmetsburg and Emmetsburg Municipal Utilities did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements**

**REPORTABLE CONDITIONS:**

06-II-A      Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the City's financial statements. We noted that one individual at the Utilities office has custody of receipts and performs all record-keeping and reconciling functions for the office. We also noted that one individual in the City primary government writes checks, is a part of a dual signature of those checks, records journal entries without another individuals approval, and reconciles the bank accounts.

Recommendation - We realize that because there are a limited number of

office employees, segregation of duties is difficult. However, the City and Utilities should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and have determined that our policy of involvement of the City Council and various boards along with the administration's monitoring of transactions is the best we can do.

Conclusion - Response accepted.

### **Part III: Other Findings Related to Required Statutory Reporting:**

06-III-A Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year.

06-III-B Certified Budget - Expenditures during the year ended June 30, 2006 exceeded the amount budgeted in the debt service function by \$53,766. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - When the budget was amended, it should have included an amendment for the debt service fund.

Response - The budget will include all functions in the future. However, \$40,000 of the amount by which the budget was exceeded, was due to the lender's forgiveness of debt in her will. We did not realize that the accounting for the forgiveness of debt was to record the forgiveness as income and the amount forgiven had to be recorded as expenditure.

Conclusion - Response accepted.

06-III-C Questionable Expenditures - There were no questionable expenditures that fell outside its established policy on such costs.

06-III-D Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

05-III-E Business Transactions - Business transactions between the City and City officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Description of Transaction</u>	<u>Amount</u>
Paul Saxton, Utility Trustee Saxton's Greenhouse	Grass seed, spraying, plants, and flowers	\$ 2,165

Nick Steinkamp, Utility Trustee K & W Electric, Inc.	Repairs	4,015
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Steve Finer, Council person	Police cars	20,499
Jensvold Motor Company	Repairs and supplies	1,514

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Saxton's Greenhouse and Jensvold Motor Company does not appear to represent a conflict of interest since the total purchases did not exceed a cumulative total of \$2,500 for the year and the police car was entered into through competitive bidding in accordance with Chapter 362.5(4). The transaction with K & W Electric, Inc. may represent a conflict of interest.

Response: The City has investigated the questioned transactions and talked to the individuals who initiated them. Employees have been reminded of conflict of interest policies and where to find information regarding them. K & W Electric, Inc. is the only company in this area who is familiar with the water plant and well supply. We had some immediate needs for the repairs and had no idea who else to call or even if another company would have been able to act as quickly.

Conclusion: Response accepted.

- 06-III-F      Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- 06-III-G      Council Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 06-III-H      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- 06-III-I      Revenue Bonds - The City has complied with all requirements of the Loan and Disbursement agreements.
- 06-III-J      Unauthorized Checking Account - The Victorian House (Museum) and the police reserves maintain a separate checking account. They received income and wrote checks for expenditures out of these accounts and did not give them to the City Clerk to include in her books.

Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for the city purpose..."

The activity of the Victorian House and police reserve bank account was recorded in this years audit report.

Response: The City has discussed this with the two departments discussed above. The police reserve is turning over complete control of the bank account to the City Clerk. The individual in charge of the Victorian house bank account has been informed that she should give the City Clerk the bank account activity monthly.

Conclusion – Response accepted.

06-III-K

Financial Management of Grants – The financial management area was in general compliance for the grants recorded in the Emmetsburg Municipal Utilities, but the Iowa Department of Economic Development noted in their letter dated February 3, 2006, that one issue regarding disbursements of CDBG funds was violated. They noted that funds requested in the Request of Payment # 8 were received by the City on August 15, 2005, but were not disbursed until September 13, 2005. This violated the disbursement of funds within 10 days of receipt.

We found two more violations of the 10-day requirement in our review. One of the errors was after the letter from the Department of Economic Development. None of the errors were material to the grant and none of the errors appeared to be intentional. The errors appeared to be clerical errors.

Response: The errors involved a transposition in one Request for Payment and the other errors was do to a delay in the approval of the checks by the Emmetsburg Municipal Utilities Board of Trustees. We will be careful not to let this happen again.

Conclusion: Response accepted.

06III-L

Missing Grant Documentation for Grant 3-19-0031-01-2005

The grant documents for testing the Davis Bacon Act and procurements were not available for us to review. We did a search for the contractor with EPLS and found no indication that the party was suspended or debarred. The reason for the missing documents is that the file with all the documentation for this grant was lost in a plane crash that killed the engineer in charge of the project.

Response: We are aware of the missing documents. We have contacted the engineering firm and they are in the process of reconstructing the missing documents.

Conclusion: Response accepted. The information relating to payments made was in compliance with the grant.

#### **Part IV: Findings and Questioned Costs-Major Federal Award Programs Audit**

There are no material matters to report.